

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BEI2084 – INTERNATIONAL ECONOMICS
(All sections / Groups)

27 OCTOBER 2017
9.00 A.M. – 11.00 A.M.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 3 pages with 4 Questions only.
2. Attempt **ALL FOUR** questions. All questions carry equal marks and the distribution of the marks for each question is given .
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Suppose that Singapore has two trading partners that produce red chilies, Malaysia and Thailand. The price of red chilies in Malaysia is SGD1.00 per pound, and the price of red chilies in Thailand is SGD2.00 per pound. Both prices are below the Singapore domestic price of SGD6 per pound. The domestic demand-and -supply curves are given by the following equations:

$$Q_d = 135 - 4P \text{ (Demand)}$$

$$Q_s = 63 + 8P \text{ (Supply)}$$

where,

P is the price per pound of tomatoes (in SGD), and

Q is the quantity of tomatoes (in thousands pounds)

- i) If there is free trade, which country will Singapore buy red chilies from? Determine the amount of domestic consumption and production of red chilies in Singapore with free trade. (4 marks)
- ii) Now supposed that there is a SGD3.00 per pound tariff on red chilies. Find what the new price of red chilies is, and identify which country will Singapore import red chilies from? (3 marks)
- iii) Calculate how much red chilies are consumed and produced if a SGD3.00 per pound tariff is imposed to restrict imports of red chilies. Assess what is the effect of this import restriction on the well-being of Singapore consumers and producers. (6 marks)
- iv) Singapore creates a free trade area with Thailand, which means that there is now no tariff on Thailand red chilies. Discuss who will Singapore trade now and what will the price of red chilies be? (3 marks)
- v) Compare if well-being of Singapore local consumers and local producers improve after creation free trade area between Singapore and Thailand. (6 marks)

Continued...

vi) Overall, is the free trade area a good idea to create more trade? Explain.
(3 marks)

(Total: 25 marks)

QUESTION 2

(a) Suppose that there are three factors: capital, labour, and land. Barley requires inputs of land and labour, and aircraft requires capital and labour.

i) Which factors are variable and which are specific?

(5 marks)

ii) Suppose India's endowments of land and capital are 450 capital and 4500 land, and Japan's are 300 capital and 600 land. Which good does each country export?

(5 marks)

iii) How does trade affect the returns to land, labour, and capital in Japan and India?

(5 marks)

(b) Most of the European Union countries engage in a lot of intra-industry trade as predicted by Heckscher-Ohlin theory. Explain if you agree or disagree.

(10 marks)

(Total: 25 marks)

QUESTION 3

(a) Currencies are traded in international markets; indeed, about USD5 trillion per day is traded on foreign exchange markets. This amount is vastly more than what is needed for international trade of goods and services (about USD24 trillion per year) or for foreign direct investment (which is about USD1.0-1.5 trillion per year). Thus, exchange rate markets are driven by investors trying to figure out where higher rates of return will be available in the future, while simultaneously trying to reduce and diversify the risks they face if exchange rates shift in a way they didn't expect. Because of these dynamics, exchange rate markets are notoriously volatile.

Critically discuss how volatile exchange rates diminish the amount of international trade.

(10 marks)

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(b) Analyze how the following factors affect the Malaysian Ringgit with the aid of an appropriate diagram. Assuming other factors remains unchanged.

- i) A Washington farm cooperative receives payment from a Malaysian importer of Washington apples. (5 marks)
- ii) The Malaysian interest rate differential declined. (5 marks)
- iii) A Singapore pension fund uses some incoming contributions to buy equity shares of several Malaysian companies through the Bursa Malaysia. (5 marks)

(Total: 25 marks)

QUESTION 4

(a) In today's age the U.S. is still highly protectionist. According to Global Trade Alert the U.S. has adopted over 1000 protectionist measures since the Global Economic Crisis in 2008, more than any other country since.

Identify and elaborate **ANY TWO** factors that would increase the probability that an industry would receive a higher level of protection. (10 marks)

(b) World trade in goods will total around USD35 trillion, two and a half times its value by year 2020. At the same time, world trade in services will double to around USD6 trillion. Rapid-growth markets will become an even more dominant force in global trade over the coming decade, with the Asia-Pacific region set to experience the fastest growth in global trade to 2020. Nearly half our Asia-based respondents to our survey expect to export more than 60% of their output in five years' time, compared with less than a fifth of companies in the Americas.

Discuss **ANY FIVE** advantages that international trade can have on economic development. (15 marks)

(Total: 25 marks)

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